

# WAREHOUSE TAX INCENTIVE

The information contained in this fact sheet is current as of the date of this publication and provides general information about the warehouse tax incentive. It does not cover every aspect of the incentive, nor does it alter or supersede any administrative regulations or rulings issued by the Department.

The warehouse tax incentive allows businesses to exempt 100 percent of the construction costs from the state's retail sales or use tax (6.5 percent). The incentive also allows 50 percent exemption from the state retail sales or use tax for qualifying equipment acquisition costs.

Pre-application is not required before beginning construction or acquiring machinery and equipment. There are specific requirements for eligibility and we encourage you to contact us if you have questions.

## GENERAL ELIGIBILITY

Businesses and facilities meeting the following criteria may be eligible for the incentive:

- ◆ Wholesalers, retail distribution centers, and third party warehouse;
- ◆ Warehouses that are 200,000 or more square feet;
- ◆ Warehouses that store finished goods;
- ◆ Grain elevators with 1,000,000 bushels or more of storage capacity.

## COSTS ELIGIBLE FOR TAX EXEMPTION

### Warehouse Construction Cost Eligible for Exemption:

- ◆ Construction of new warehouses greater than 200,000 square feet and expansion of existing

warehouses (by 200,000 square feet or more) qualify for a 100 percent exemption.

- ◆ Construction of the building, including storage space, office space, lunchrooms, restrooms, and other space within the warehouse necessary to the operation of the warehouse.
- ◆ Loading docks and other space attached to the building and used to handle finished goods.
- ◆ Excavation of the footprint and other costs incurred relative to foundation work.
- ◆ Expansion of an existing facility that adds a minimum of 200,000 square feet. The existing facility cannot be counted in the square footage calculation.

### Other Qualifying Uses:

- ◆ A warehouse with other taxable activities if at least 200,000 square feet are dedicated to the qualifying use.
- ◆ A facility used to store agricultural products if it is located on land of the producer and owned or operated by an eligible person.
- ◆ Construction of a building that will be leased, providing the lessee is a qualified tenant and the economic gain is passed on to the lessee through reduced rent.

## Grain Elevator Construction Cost Eligibility:

- ◆ A grain elevator with the capacity of one to two million bushels qualifies for a 50 percent exemption.
- ◆ A grain elevator with the capacity of at least two million bushels qualifies for a 100 percent exemption.
- ◆ Expansion to an existing facility that adds one million bushel capacity can qualify for the exemption. The existing facility cannot be counted in the bushel capacity expansion calculation.

## Material Handling Equipment/Racking Equipment Acquisition:

- ◆ Material handling equipment and racking equipment in both warehouses and grain elevators are eligible for a 50 percent exemption. The equipment exemption is available to existing buildings with at least 200,000 square feet and buildings that expand to 200,000 square feet. The exemption is available to existing grain elevators as long as the capacity is greater than one million bushels.

## WHAT IS NOT ELIGIBLE?

- ◆ Landscaping, parking lots and storage yards — they are not considered part of the warehouse.
- ◆ Facilities where retail sales occur.
- ◆ Facilities where construction began before May 20, 1997.
- ◆ Equipment under the dominion and control of the business before May 20, 1997.
- ◆ Speculative building of a warehouse when there is not a qualified tenant/lessee under contract to lease the facility.

## WHO IS NOT ELIGIBLE?

- ◆ Farmers who make wholesale sales of agricultural products.
- ◆ Manufacturers if any part of a manufacturing operation takes place in the warehouse. For example, if the storage equipment in the warehouse qualifies under the manufacturing machinery and equipment sales tax exemption, construction of the warehouse does not qualify for the warehouse tax exemption.

## HOW THE EXEMPTION WORKS

At the time of purchase, the business pays the state and local retail sales or use tax to the contractor or other vendor. To receive the exemption, each quarter the business will file an *Application of Remittance* with the Department of Revenue in which they state the total amount of their eligible expenditures. Businesses are limited to one application per calendar quarter.

The Department of Revenue will approve or deny an application based on specific eligibility qualifications. The exempted amount approved will be sent to the business at the end of the calendar quarter following the quarter the application was submitted.

The exemption is limited to the state's retail sales or use tax (6.5 percent).



## DEFINITIONS

**Cold Storage Warehouse:** Warehouse used to store fresh and/or frozen perishable fruits or vegetables, meats, seafood, dairy products, or fowl, or any combination thereof, at a desired temperature to maintain the quality of the product for marketing.

**Finished Goods:** Tangible personal property intended for sale by a retailer or wholesaler. Logs, minerals, petroleum, gas and other extracted products stored as raw materials or in bulk are not finished goods.

**Eligible Costs:** This includes materials, labor and services associated with the construction of a warehouse or grain elevator.

**Material Handling and Racking Equipment:** Equipment in a warehouse or grain elevator used primarily (more than 50 percent of the time) to handle, store, organize, convey, package, or repack finished goods or grain. It includes tangible personal property, with a useful life of longer than one year or more, that becomes an ingredient or component part of the equipment, including repair or replacement parts. It does not include equipment in restrooms, lunchrooms, offices or other non-warehousing space. Only items used to handle or store the finished goods or grain are eligible for the exemption. Vehicles that can be operated legally on streets and roads are not eligible.

**Retail Distribution Center:** A facility that is operated by a person who makes retail sales of tangible personal property (as defined in Chapter 82.04 RCW) and who owns or operates a warehouse to store their own retail goods. The facility must be used exclusively by a retailer for the storage and distribution of finished goods to retail outlets of the retailer.

**Square Footage:** Square footage is calculated by multiplying the length and width of each floor of a specific warehouse. The entire footprint of the building, including loading docks is used in the calculation.

**Storage Warehouse:** A building or structure in which goods, wares or merchandise are stored for storage for compensation. It does not include field warehouses, fruit warehouses, fruit packing plants, warehouses licensed under Chapter 22.09 RCW, public garages storing automobiles, railroad freight sheds, docks, and wharves, and self-storage or mini-storage facilities.

**Third Party Warehouser:** A person operating a cold storage warehouse or storage warehouse.

**Wholesaler:** A person who makes wholesale sales (as defined in Chapter 82.04 RCW) of tangible personal property. Farmers who make wholesale sales of agricultural products are excluded from this special definition of wholesaler.

## FOR MORE INFORMATION

If you have questions about the warehouse tax incentive, please contact us at:

Taxpayer Information and Education  
Washington State Department of Revenue  
PO Box 47478  
Olympia, WA 98504-7478

Fax: (360) 486-2159

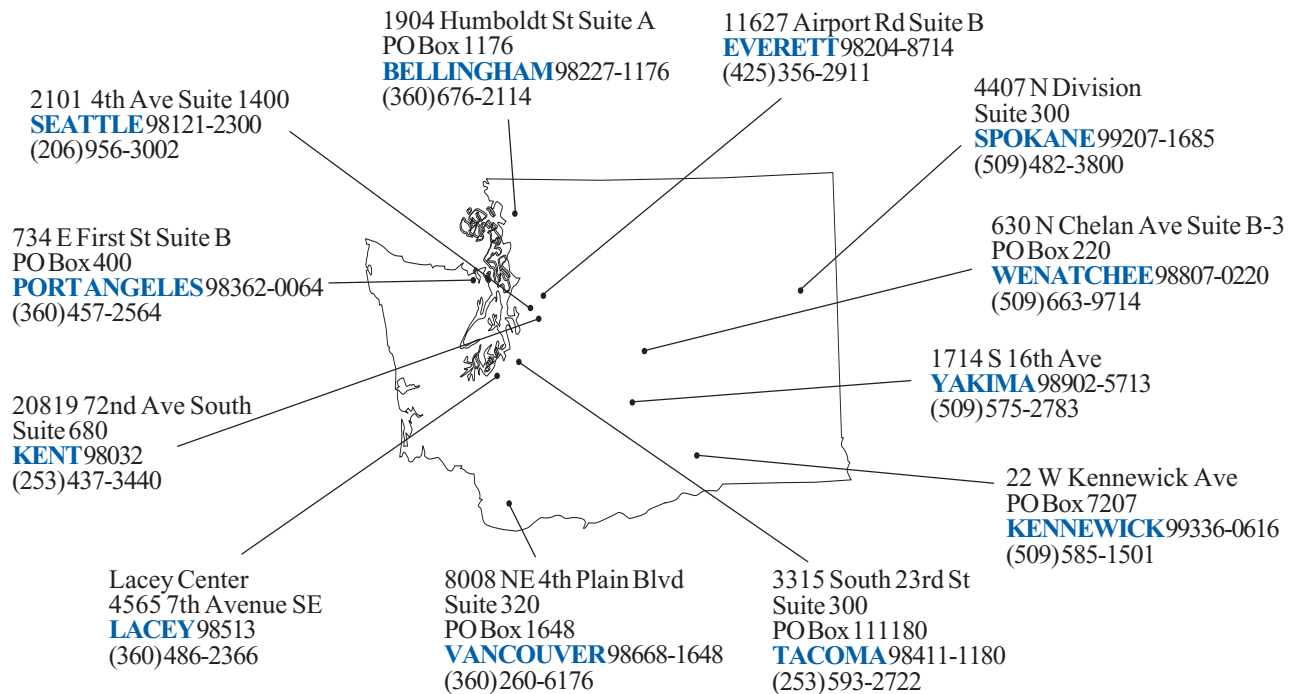
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<http://dor.wa.gov>

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